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Report to the Finance Strategic Policy Committee

Report on Rates Debtors 31st December 2019

The Local Government (Financial Procedures and Audit) No 2 regulations 2014 provide that a rating authority on completion of the schedules of uncollected rates at the end of each financial year submits a report to the members of the Local Authority.

This report on commercial rates arrears at the 31st December 2019 sets out the following information:

- 2019 Local Authority Sector target improvement for rates collection
- Commercial rates funding
- Level of arrears during the period 2015 - 2019
- Rates Collection Percentages Y2015 – Y2019
- Age Profile of the 2019 arrears
- Analysis of the 2019 arrears accounts
- Analysis of the 2019 arrears by rate description category
- 2019 arrears schedule status
- 2019 arrears by electoral area
- Conclusion

2019 Local Authority Sector target improvement for rates collection

A local government debt management project group was set up in the 1st quarter 2015 which consisted of representatives from a number of Local Authorities, the DoHPLG and the LGMA in response to a government review of the collection of all public sector debt. Commercial rates arrears of €394M were outstanding at 1/1/15 within the sector and the focus of the group was to:

- Achieve a target improvement in rate collection for each authority
- Improvements in collection and administration of debt management procedures

Significant progress has been achieved within the sector in reducing the level of arrears down to €246.7M at the end of 2018. Annual collection targets are assigned to each Local Authority. The 2019 % collection targets as assigned were banded as below with the lower performing authorities required to improve collection by those higher percentages as outlined in the table.

	Collection % AFS 2018	Target collection rate 2019
Band 1	Above 90%	No change
Band 2	85% - 89%	+1.5%
Band 3	79% - 84%	+2.5%
Band 4	Minimum Collection	80%

The 2019 target for Dublin City Council was a collection target of 92.4%. The actual outturn in 2019 exceeded the target levels with a collection of 94% and year-end arrears of €23.1M, a reduction of €4.7M (17%) on the 2018 arrears outturn.

Commercial Rates Funding

The City Council exercises restraint in setting commercial rate charges in order to support competitiveness in the economy, nationally and locally, and to sustain the commercial rate base within the City. It should be noted that the City Council's 2020 revenue budget is 35% funded by commercial rates and therefore the performance on rate collection is critical to the funding provision of services.

I have set out in the table below, details of movement in the Council's ARV since 2013.

Table 1 – Movement in Annual Rate on Valuation

YEAR	2013	2014	2015	2016	2017	2018	2019
ARV	-0.5%	-0.4%	-0.5%	0.0%	+0.78%	0.0%	+1.2%

Whilst the annual reduction in the Council's ARV over the period was modest, the cumulative value of resources foregone is estimated at €29M. The performance of Dublin City Council in the area of commercial rates and other charges it imposes on the business sector compares favourably with the performance of other sectors where above inflation price increases have been the norm over recent years.

The commercial rates annual charges over the period 2015 – 2019 are detailed in table below.

Table 2 – Commercial Rates Income

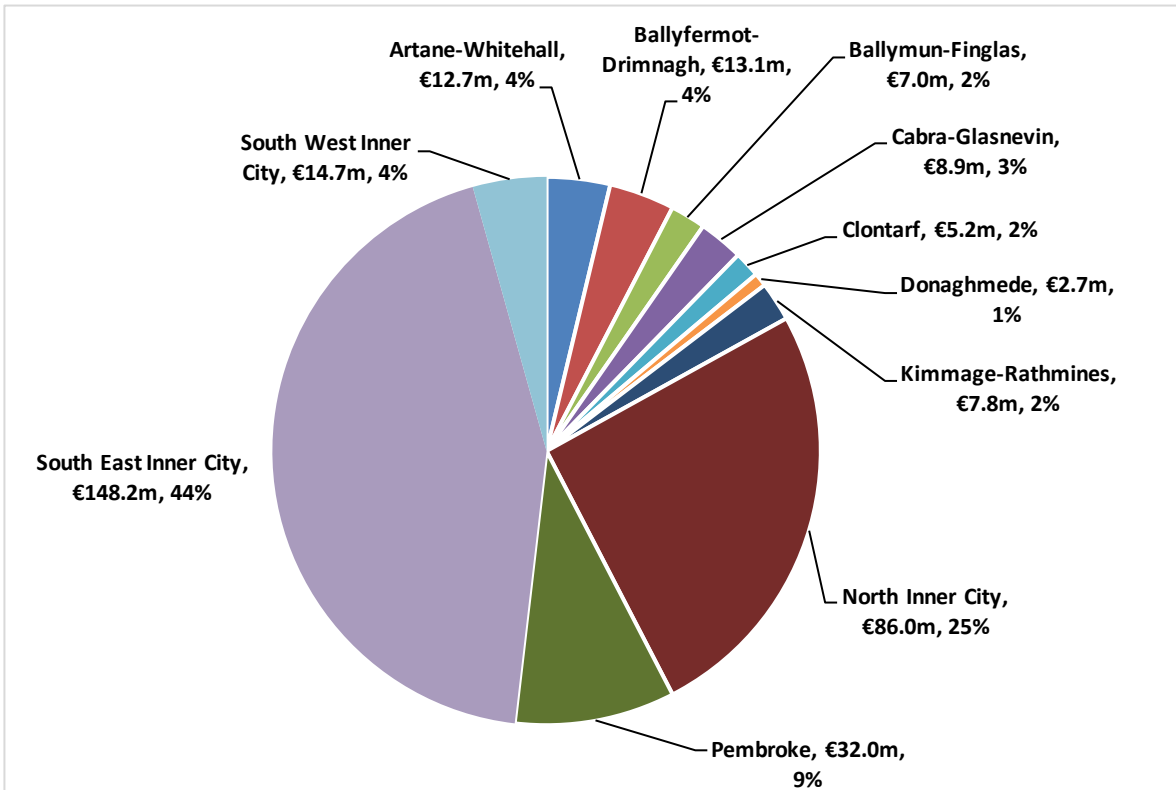
Year	Rates Income
2015	€336,255,813
2016	€324,501,784
2017	€321,481,363
2018	€324,255,552
2019	€338,299,503

Source: DCC Annual Financial Statements 2015 – 2019

The 2019 income increase of €14M is primarily due to €3.8M rate increase and the balance resulting from the rating of the Dublin Waste to Energy plant and additional buoyancy.

The graph below identifies the breakdown of charges per electoral area. South East Inner City and North Inner City account for 69% of the annual charge.

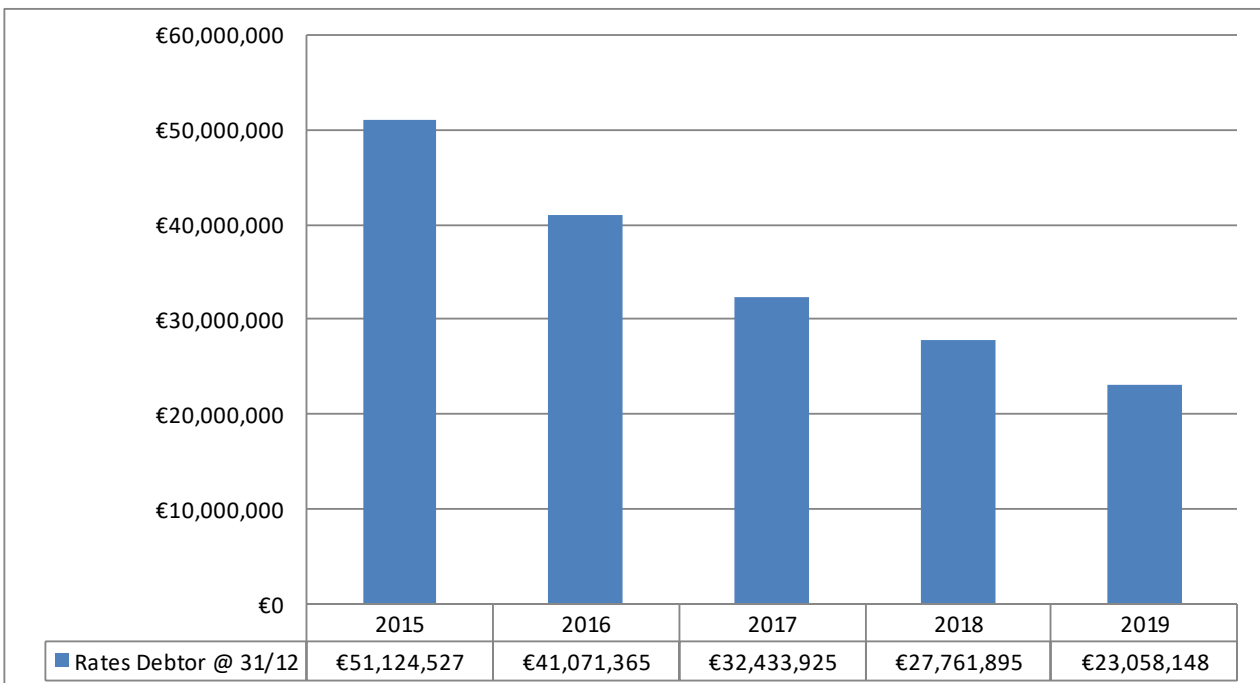
Graph 1 – 2019 Commercial Rates Income by Electoral Area



Level of Arrears for the Period 2015– 2019

The economic downturn and global financial crisis which initiated the recession post 2008 significantly impacted to the highest increased level of arrears of €76.3M in 2012. The graph below clearly outlines the changing level of arrears over the period. The reduction in arrears to €23.1M in 2019 is primarily due to an improvement in the annual % collection, a focused debt management approach, improvement in economic factors and the conclusion of liquidation / receivership cases. It should be noted that the current level of arrears of €23.1M is the lowest since 1999.

Graph 2 – Rates Debtor Y2015 – Y2019



Rates Collection Percentages Y2015 – Y2019

The table below outlines the year on year improvement by DCC in the collection of rates having increased collection performance by 6% since 2015. This equates to an improved cash performance of €20M per annum.

The reduction in receipts of €11M in 2016 compares favourably in comparison with the reduction of the total warrant for collection €21M (arrears + annual charge) between 2016 and 2015. The increase in receipts of €3.8M in 2017 compares favourably with a reduction of €4.8M in the 2017 total warrant for collection. The 2018 receipts level compares favourably with 2017 given the reduction of €5M in the total warrant for collection. The increase in receipts of €13.4M in 2019 compares favourably with the increase in the total warrant for collection of €8.8M.

The 2019 write offs include €7.6M in respect of vacancy refunds as provided by S71 of the Local Government Dublin Act 1930 as amended by S31 of the Local Government Act 2014. In addition, an amount of €1.3M was written off in 2019 following determination of appeals on valuation by the Valuation Tribunal. An amount of €5.3M was written off due to demolitions. The balance of amounts written off is primarily in respect of those cases where debt recovery procedures have been exhausted and there is no prospect of recovery.

Table 3 – Analysis of DCC Rates Collection Y2015 – Y2019

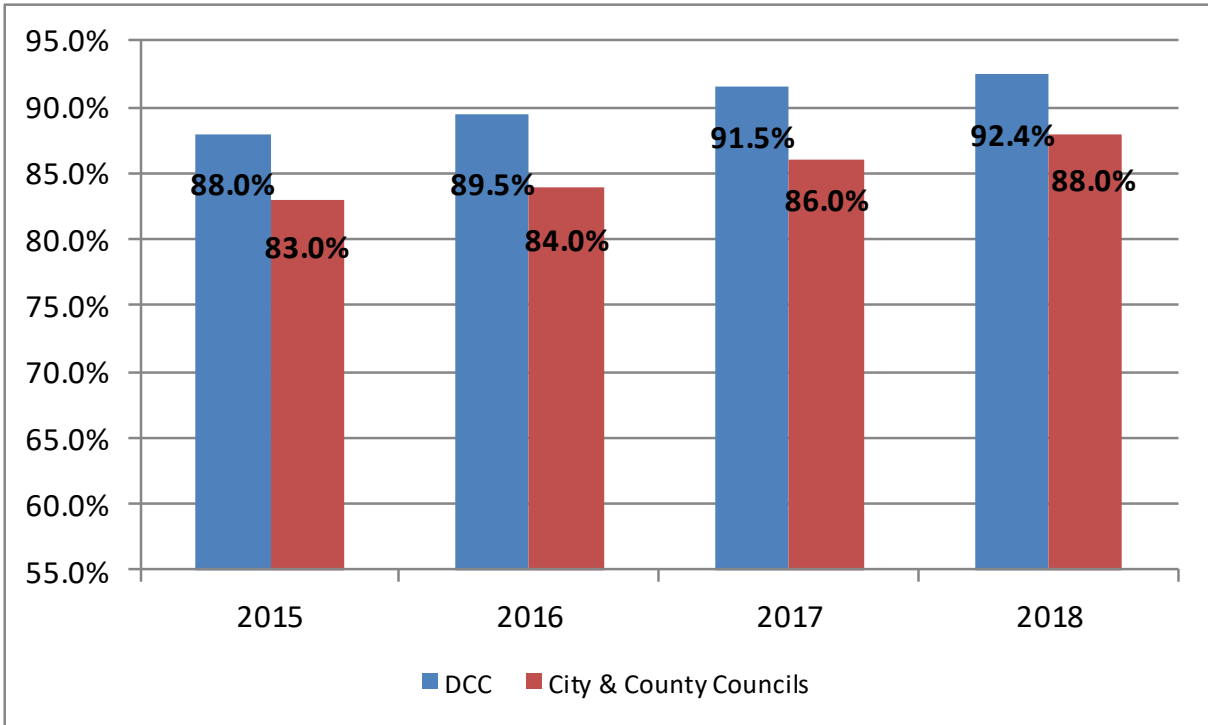
Year	Arrears 01-Jan	Charge	Write Off	Total for Collection	Receipts	Arrears at 31-Dec	Specific Doubtful Arrears	% Collected
	€m	€m	€m	€m	€m	€m	€m	
2015	62.6	336.3	33.6	365.2	314.1	51.1	7.1	88.0%
2016	51.1	324.5	31.4	344.2	303.1	41.1	5.7	89.5%
2017	41.1	321.5	23.2	339.4	306.9	32.4	3.6	91.5%
2018	32.4	324.3	22.3	334.4	306.7	27.8	2.5	92.4%
2019	27.8	338.3	22.9	343.2	320.1	23.1	2.0	94.0%

Source: DCC Annual Financial Statements 2015 – 2019

The City Council's collection performance compares favourably with the comparative average of the Irish Local Authority Sector. The graph below outlines the average annual sectoral % collection performances of 83%, 84%, 86% and 88% respectively for the years 2015 - 2018. The 2019 DCC collection at 94% represents an improvement of 1.6% on 2018 which equates to a value of approx. €5M. Whilst noting the improvement in collection, it is also acknowledged that some sectors and locations have not benefitted to the same degree from improving economic factors.

No 2019 comparative figures for the sector are available to date.

Graph 3 – DCC vs City and County Councils Rates Percentage Collection

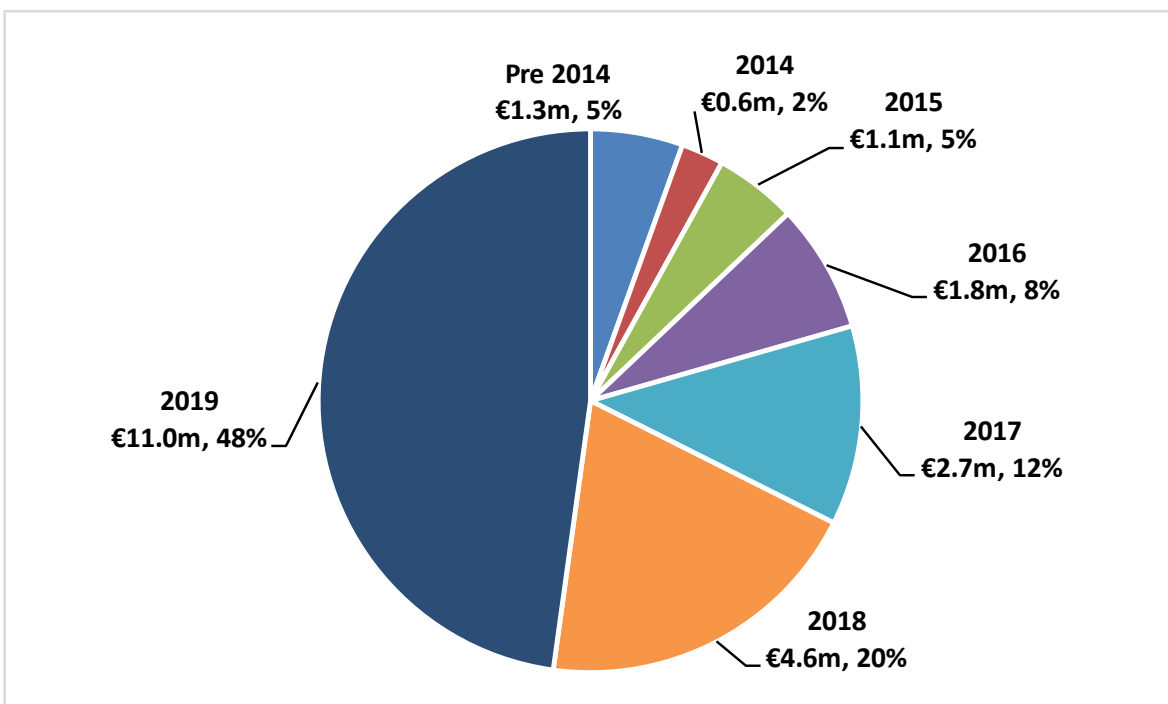


Source: DCC Annual Financial Statements 2015 - 2018
Local Government Audit Service Activity Reports

Age Profile of the 2019 Arrears of €23.1M

The graph as below shows that €11M (48%) of the arrears comprise of charges accrued in respect of 2019 and €4.6M (20%) refers to charges accrued in 2018 with the balance of €7.5M (32%) in respect of charges pre 2018.

Graph 4 – Age Profile of 2019 Arrears



Analysis of the 2019 Arrears Accounts

There are 4,030 accounts in arrears @ 31/12/19 which equates to 20% of the total number of rate accounts in 2019. The number of accounts in arrears has reduced by 240 in comparison with 2018 (reduction of 6%) which reflects the positive performance in debt management. The table below shows that 60% of those accounts in arrears have an annual charge below €5,000. In addition, 81% of the arrears value (€18.7M) relates to accounts where the annual rates charge ≤ to €50,000.

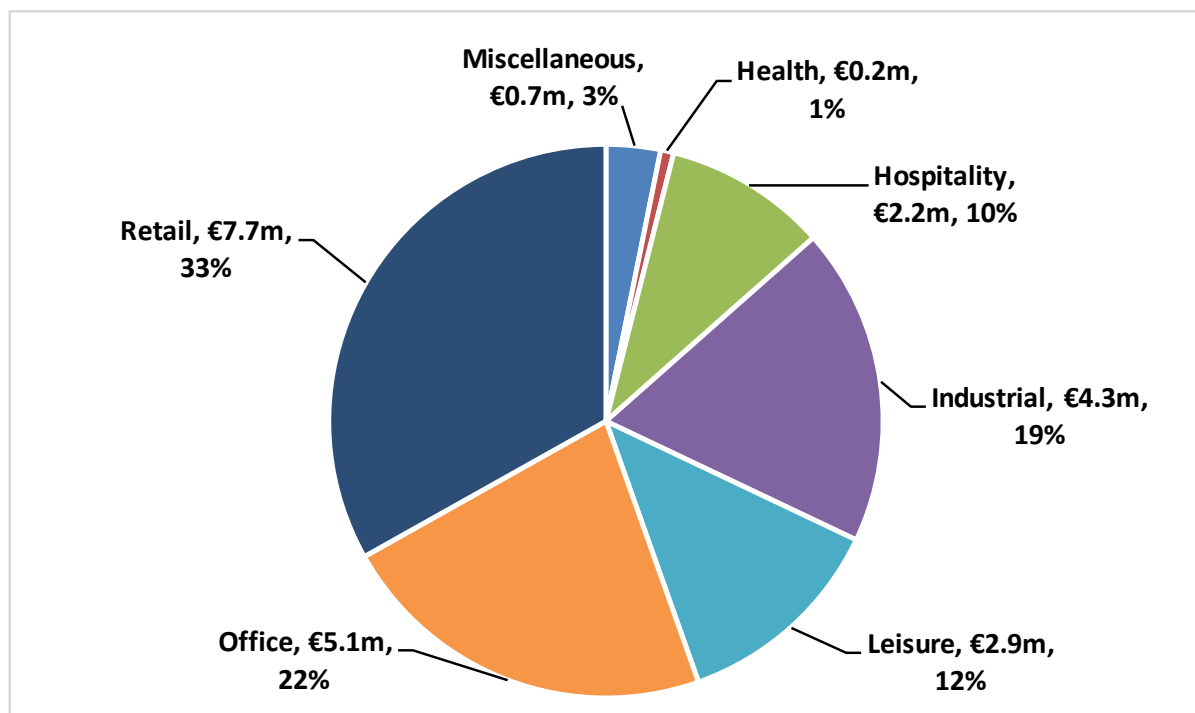
Table 4 – Rate Arrears by Charge Range

Charge 2019	No. of Accounts	No. of Accounts in Arrears	Actual Arrears Based on GL €m	Actual Arrears %
0.00-999	2,039	426	0.5	2.0%
1,000-2,999	5,843	1,201	2.8	11.9%
3,000-4,999	3,682	811	2.9	12.6%
5,000-9,999	3,923	831	5.0	21.7%
10,000-24,999	2,791	531	5.2	22.8%
25,000-49,999	1,083	145	2.3	9.9%
50,000-74,999	385	33	0.8	3.5%
75,000-99,999	161	14	0.1	0.4%
100,000+	462	38	3.5	15.2%
Total	20,369	4,030	23.1	100.0%

Analysis of the 2019 Arrears by Rate Description Category

Further analysis of the arrears identifies the breakdown per category as per the graph.

Graph 5 – Arrears by Category



2019 Arrears Schedule Status

The table below outlines the current status of the breakdown of the €23.1M arrears.

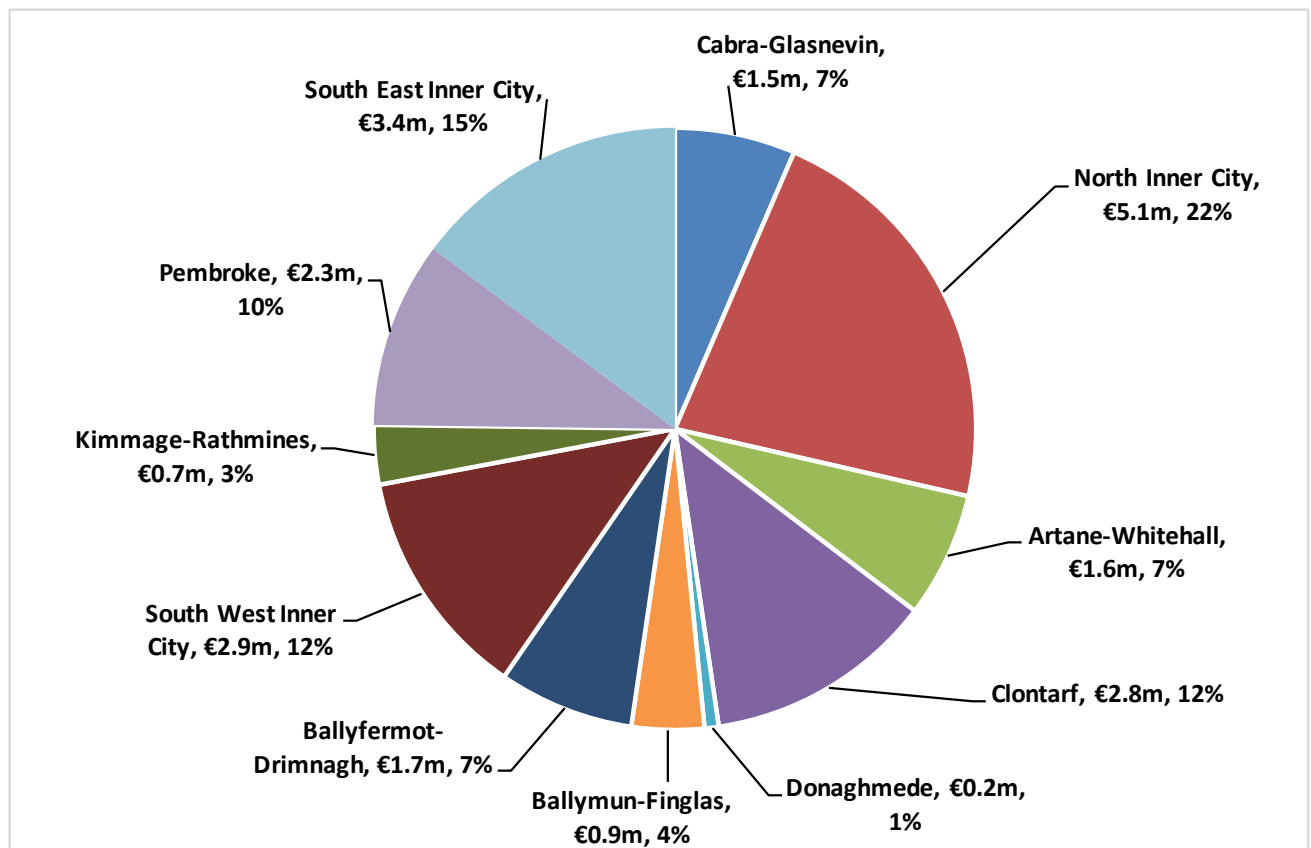
Table 5 – Analysis of Arrears Schedule Status

Status	Arrears Amount	Arrears Amount %
	€m	
Court Proceedings	6.3	27.2%
Liquidations / Receiverships / Ceased Trading	1.4	6.1%
Revisions / Appeals / VTA	1.7	7.3%
Settlements agreed / Pending / Discharged by Instalments	5.5	23.9%
Under Investigation / Law Dept	3.6	15.5%
Account For Write Off / Written Off	0.7	3.3%
Decree Obtained / Warrant	3.9	16.7%
Total	23.1	100.0%

2019 Arrears by Electoral Area

The graph below shows the breakdown of the arrears per electoral area.

Graph 6 – Arrears by Electoral Area



Conclusion

In setting and collecting commercial rates, the Council is tasked with performing an extremely delicate balancing act in ensuring that local businesses pay rates on time and being conscious of supporting those businesses where financial pressures present from time to time.

The council operates its rates policy on a consistent basis, with flexibility and reasonableness, seeking to ensure that where difficulties exist, arrangements can be put in place which allows rates to be paid on a basis that facilitates businesses to continue trading.

However, in certain cases, legal recovery of the debt is being and will be pursued where customers have failed to agree or not adhered to previously agreed payment plans.

The 2020 opening arrears of €23.1M have reduced to €20.3M at 7/03/2020.

Fintan Moran

Head of Management Accounting